COMPANY UPDATE

CIMB Group (CIMB MK)

Moderating Outlook

Management flagged potential downside risks to loans growth due to continued client caution amid unfolding tariff developments. Nonetheless, relatively strong provision buffers provide protection against asset quality risks, while management remains cautiously optimistic about managing the NIM impact from the OPR cut. We maintain our HOLD rating with a lower target price of RM7.52 (1.0x 2025F P/B, 10.9% ROE) after trimming earnings by 2% to reflect weaker loan growth.

WHAT'S NEW

- **Downside risk to loans growth as business sentiment remains cautious.** Management indicated that channel checks with clients suggest business sentiment remains cautious in the aftermath of Liberation Day, with many adopting a wait-and-see approach, reinforcing a more guarded lending stance. The new business loans pipeline remains weak post-Liberation Day. On the other hand, consumer loan growth is resilient, though management remains mindful of potential second-order effects. Overall, on a constant currency basis, group loans growth is tracking at around 4%, below management's target of 5-7%, while reported group-level loans growth is even weaker at approximately 2% due to the strengthening of the RM. Consequently, we are revising our loans growth assumption downwards from 5% to 2% to reflect weaker business lending and currency impact.
- **Direct tariff impact manageable**, Management views direct exposure as manageable, with trade-related loans making up less than 5% of group loans and clients with US export exposure comprising only 3-5% of group loans.
- **Asset quality impact remains too early to assess, but healthy provision buffers help mitigate potential risks.** Management believes it is still too early to assess asset quality risks from global macro headwinds. However, with a healthy loan loss coverage ratio of 102% (vs the pre-COVID average of 80%), the group has flexibility to redeploy management overlays toward emerging risk areas, supporting stable near-term credit cost outlook. As such, 2025 net credit cost guidance is maintained at 25-35bps. We have pencilled in a 28bp net credit cost assumption for 2025. As of now, management alluded that overall delinquency rates and asset quality remains stable.
- **Reallocation of management overlays rather than need for additional top-up.** At a granular level, management plans to reallocate some management overlays from the consumer portfolio to wholesale banking to buffer against potential tariff fallout without topping up provisions. This reflects better-than-expected consumer asset quality, supported by milder-than-expected inflation due to the government's more targeted subsidy rationalisation rollout to avoid burdening the broader population.

KEY FINANCIALS

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net interest income	11,087	11,367	11,439	12,024	12,962
Non-interest income	5,670	6,197	6,437	6,803	7,207
Net profit (rep./act.)	6,985	7,731	7,811	8,316	8,987
Net profit (adj.)	6,985	7,731	7,811	8,316	8,987
EPS (sen)	65.7	71.8	72.5	77.2	83.5
PE (x)	7.8	7.1	7.1	6.6	6.1
P/B (x)	0.8	0.8	0.7	0.7	0.7
Dividend yield (%)	8.4	9.2	7.7	8.2	8.8
Net int margin (%)	2.33	2.29	2.25	2.23	2.23
Cost/income (%)	46.9	46.7	48.2	48.5	48.1
Loan loss cover (%)	97.0	105.3	111.8	112.9	116.7
Consensus net profit	-	-	7,944	8,349	8,939
UOBKH/Consensus (x)	-	-	0.98	1.00	1.01

Source: CIMB Group, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM6.67
Target Price	RM7.52
Upside	12.8%
(Previous	*RM7.70)*

COMPANY DESCRIPTION

CIMB Group is Malaysia's largest investment bank and second-largest consumer bank and one of Southeast Asia's leading universal banking groups.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	CIMB MK
Shares issued (m):	10,754.4
Market cap (RMm):	71,732.1
Market cap (US$m):	16,926.7
3-mth avg daily t'over (US$m):	25.6

Price Performance (%)

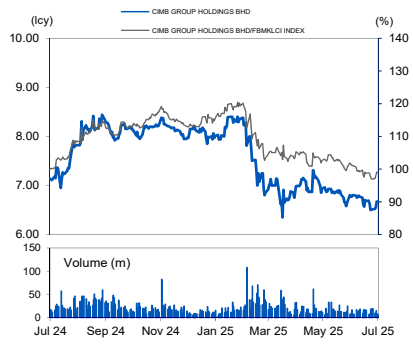
52-week high/low	RM8.50/RM6.21

1mth	3mth	6mth	1yr	YTD
(1.9)	(2.6)	(16.3)	(6.5)	(18.7)

Major Shareholders	%
Khazanah Nasional Berhad	21.5
EPF	15.8
Amanah Saham Nasional	9.9

FY25 NAV/Share (RM)	6.85
FY25 CAR Tier-1 (%)	15.2

PRICE CHART



Source: Bloomberg

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- **Non-interest income outlook.** On a sequential comparison, 2Q25 non-interest income is expected to reflect sequential growth, driven by strong trading and forex gain but partly offset by weaker fee income. Looking ahead, management expects its cross-selling efforts to help drive an improvement in fee income in 2H25 while trading income remains volatile.
- **NIM to show a slight improvement in 2Q25; retaining NIM guidance.** The recent 1ppt Statutory Reserve Requirement (SRR) cut and liability optimisation are expected to drive a sequential improvement in 2Q25 NIM. Management indicated that NIM could exit with a slight uptick in 4Q25 from the 1Q25 level of 2.16%, as deposits reprice downwards following the OPR cut in Jul 25, allowing it to lower fixed deposit campaign rates. Management has maintained its 2025 NIM guidance of stable to -5bp, assuming only one 25bp OPR cut. However, as we are factoring in two OPR cuts in 2H25, we have pencilled in a 3bp NIM compression for 2025. Sensitivity-wise, each 25bp rate cut is estimated to compress group NIM by approximately 2bp annually.
- **Scope to sustain special dividends?** Although management has not indicated plans for additional special dividends in 2025 and beyond, they have emphasised their commitment to maintaining an efficient capital structure. Our forecast assumes a recurring dividend payout ratio of 55%, translating to an attractive yield of 5.5%. Even after accounting for the potential 30bps impact from the full adoption of Basel 4, we estimate that the group could still maintain a healthy CET1 ratio of 13.7% in 2027, assuming a higher payout ratio of 65% (including special dividends) and an annual RWA growth rate of 7%. This would lift dividend yields to 6.7%.
- **2025 outlook**. Management's key 2025 guidance are as follows: a) ROE 11-11.5%, b) loans growth: 5-7%, c) net credit cost: 25-35bp, and d) NIM: stable to -5bp. However, management alluded to downside risk to loans growth targets.

EARNINGS REVISION/RISK

- Factoring in slower loans growth of 2%/3% from 5% we revise our 2025-2027 earnings forecasts down by 2-1%, respectively.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a lower target price of RM7.52 (1.10x 2025F P/B, 10.9% ROE) from RM7.70 post-earnings revision.** Despite trading at a relatively attractive 1.0x 2025 P/BV, valuations remain in line with the historical mean. Following our earnings revisions, we project just 1% growth in 2025, as weaker NIM and loan growth cap overall performance. As such, we see a balanced risk-reward profile, with modest growth offset by an appealing 5.5% dividend yield. Additionally, its relatively high foreign shareholding of 33.8% versus the 5-year average of 28% could limit share price upside if macro uncertainties persist amid ongoing tariff negotiations.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

• **Environmental**
- **Green loan commitment.** To provide RM30b in sustainable financing by 2040. - **Zero new coal financing.** Transition all stakeholders to zero carbon emission by 2050.
• **Social**
- **Board and upper management gender diversity.** Maintained 30% female directors on the Board. - **Enhanced financial inclusion to B40.** Provide greater financial inclusion for vulnerable communities (affordable housing financing) and welfare assistance to vulnerable communities, especially the B40 consumers.
• **Governance**
- **Non-independent board of directors composition.** Composition of Independent Non-Executive Directors (INED) – 60%.

KEY ASSUMPTIONS

(%)	2025F	2026F	2027F
Loan Growth	2.0	3.0	4.0
Credit Cost (bp)	28.0	25.0	25.0
ROE	10.9	11.0	11.2

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Interest income	26,630	27,462	29,004	31,023
Interest expense	(15,263)	(16,022)	(16,979)	(18,060)
Net interest income	11,367	11,439	12,024	12,962
Fees & commissions	2,349	2,490	2,789	3,124
Net trading income	3,295	3,394	3,462	3,531
Other income	552	552	552	552
Income from islamic banking	4,741	5,025	5,327	5,646
Total income	**22,304**	**22,901**	**24,154**	**25,815**
Staff costs	(6,347)	(6,855)	(7,407)	(8,005)
Other operating expense	(4,073)	(4,190)	(4,302)	(4,406)
Pre-provision profit	11,884	11,855	12,446	13,405
Loan loss provision	(1,369)	(1,292)	(1,205)	(1,265)
Other provisions	(135)	(150)	(149)	(148)
Associated companies	19	73	74	75
Other non-operating income	0	0	0	0
Pre-tax profit	10,399	10,487	11,166	12,067
Tax	(2,477)	(2,517)	(2,680)	(2,896)
Minorities	(191)	(159)	(170)	(183)
Net profit	**7,731**	**7,811**	**8,316**	**8,987**
Net profit (adj.)	7,731	7,811	8,316	8,987

BALANCE SHEET

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Cash with central bank	10,647	16,145	16,872	17,715
Govt treasury bills & securities	16,232	16,557	16,888	17,226
Interbank loans	5,168	5,638	6,151	6,711
Customer loans	442,163	449,917	469,469	492,306
Investment securities	194,389	217,758	243,822	272,892
Derivative receivables	15,022	16,825	18,844	21,105
Associates & JVs	2,335	2,452	2,574	2,703
Fixed assets (incl. prop.)	2,562	2,448	2,333	2,214
Other assets	66,612	72,711	79,513	87,104
Total assets	**755,131**	**800,450**	**856,466**	**919,977**
Interbank deposits	45,445	48,457	51,680	55,128
Customer deposits	496,394	511,286	531,737	553,007
Derivative payables	61,652	64,262	66,984	69,823
Debt equivalents	25,716	25,716	25,716	25,716
Other liabilities	55,085	75,491	100,600	131,680
Total liabilities	**684,292**	**725,212**	**776,717**	**835,354**
Shareholders' funds	69,444	73,683	78,024	82,715
Minority interest - accumulated	1,395	1,554	1,724	1,908
Total equity & liabilities	**755,131**	**800,450**	**856,466**	**919,977**

OPERATING RATIOS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Capital Adequacy				
Tier-1 CAR	14.6	15.6	15.5	15.3
Total CAR	18.3	20.1	19.8	19.4
Total assets/equity (x)	10.9	10.9	11.0	11.1
Tangible assets/tangible common equity (x)	12.2	12.1	12.2	12.3
Asset Quality				
NPL ratio	2.1	2.2	2.3	2.3
Loan loss coverage	105.3	111.8	112.9	116.7
Loan loss reserve/gross loans	2.2	2.5	2.6	2.7
Increase in NPLs	(18.7)	6.2	9.6	6.5
Credit cost (bp)	31.0	28.0	25.0	25.0
Liquidity				
Loan/deposit ratio	89.1	88.0	88.3	89.0
Liquid assets/short-term liabilities	5.9	6.8	6.8	6.8
Liquid assets/total assets	4.2	4.8	4.7	4.5

KEY METRICS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Growth				
Net interest income, yoy chg	2.5	0.6	5.1	7.8
Fees & commissions, yoy chg	5.2	6.0	12.0	12.0
Pre-provision profit, yoy chg	6.5	(0.2)	5.0	7.7
Net profit, yoy chg	10.7	1.0	6.5	8.1
Net profit (adj.), yoy chg	10.7	1.0	6.5	8.1
Customer loans, yoy chg	3.0	1.8	4.3	4.9
Customer deposits, yoy chg	2.9	3.0	4.0	4.0
Profitability				
Net interest margin	2.29	2.25	2.23	2.23
Cost/income ratio	46.7	48.2	48.5	48.1
Adjusted ROA	1.0	1.0	1.0	1.0
Reported ROE	11.2	10.9	11.0	11.2
Adjusted ROE	11.2	10.9	11.0	11.2
Valuation				
P/BV (x)	0.8	0.7	0.7	0.7
P/NTA (x)	0.9	0.8	0.8	0.7
Adjusted P/E (x)	7.1	7.1	6.6	6.1
Dividend Yield	9.2	7.7	8.2	8.8
Payout ratio	65.5	54.2	54.2	54.2

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